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Message Text

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PAGE 01 PHNOM 03702 130428Z

13
ACTION SS-30

INFO OCT-01 ISO-00 /031 W
---------- 078171
R 130340Z MAR 74
FM AMEMBASSY PHNOM PENH
TO SECSTATE WASHDC 5338

C O N F I D E N T I A L PHNOM PENH 3702

EXDIS

E. O. 11652: GDS
TAGS: EFIN, CB
SUBJECT: CAMBODIAN ECONOMIC POLICY

1. USAID DIRECTOR OLMSTED AND I MET WITH NATIONAL BANK GOVERNOR SOK CHHONG YESTERDAY MORNING 12 MARCH IN AN EFFORT TO GET THE EXCHANGE RATE MOVING. ONE HUNDRED-MINUTE SESSION EMPHASIZED POLITICAL AND MORAL PROBLEM OF HOW TO GET RICH TO PAY THEIR FAIR SHARE OF THE BURDEN OF THE WAR, AND TOOK PLACE IN AN UNUSUALLY HARMONIOUS ATMOSPHERE.

2. RESULT OF MEETING WAS TO BLOCK OUT THE FOLLOWING PROPOSALS FOR FURTHER CONSIDERATION:

(A) IMMEDIATE ACTION TO PROHIBIT LUXURY IMPORTS;
(B) GOVERNMENT ACTION TO INCREASE TRADE BETWEEN HIGH AND LOW PRICE ENCLAVES WITHIN THE COUNTRY, USING SONEXIM AS THE VEHICLE AND REQUISITIONING A PORTION OF AVAILABLE AIRLINE CARRYING CAPACITY TO TRANSPORT GOODS ON SUBSIDIZED BASIS; AND
(C) DEVELOPMENT OF A FORMULA FOR EXCHANGE RATE ADJUSTMENT AND MANAGEMENT THAT WOULD INVOLVE SMALL ERRATIC RATE CHANGES IN BOTH DIRECTIONS WITHIN AN UPWARD-MOVING TUNNEL. WE WOULD ENVISAGE AN ITERATIVE PROCESS IN WHICH TUNNEL FOR COMING NINE MONTHS WERE REDEFINED EACH MONTH ON THE BASIS OF COUNTER-PART AND BUDGETARY PROJECTIONS. DEFININTION WOULD ALLOW FOR LAGS IN COUNTERPART GENERATION AND RATE OF INCREASE OF BUDGETARY EXPENDITURES SO THAT GOVERNMENT BORROWING FROM BNC WOULD
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BE CONTAINED TO A FIXED CEILING YIELDING A CONSTANT INCREASE

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IN THE MONEY SUPPLY EITHER IN PERCENTAGE OR ABSOLUTE TERMS. THIS APPROACH SHOULD PROVIDE ACCEPTABLE AMOUNT OF EXCHANGE RATE MOVEMENT, AND USE OF EXCHANGE RATE AS A TAX TO FINANCE GOVERNMENT EXPENDITURES, MAXIMIZING BENEFIT FROM EXTERNAL AID.

3. SOK CHHONG IS TO DISCUSS THESE IDEAS WITH PRIME MINISTER LONG BORET. WE WILL MEET AGAIN WITH HIM AT WEEK'S END TO REVIEW THE PROPOSALS IN DETAIL.
ENDERS

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